

Aug 6, 2018

Credit Headlines: Ascendas Real Estate Investment Trust, Keppel Corporation Limited, Chip Eng Seng Corp Ltd, OUE Limited

Market Commentary

- The SGD swap curve flattened last Friday, with swap rates for the shorter tenors trading 1-2bps higher while the longer tenors traded 1-3bps lower.
- Flows in SGD corporates were moderate last Friday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 139bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 6bps to 482bps.
- Overall, 10Y UST yields fell 4bps to close at 2.95% last Friday after China unveiled retaliatory tariffs on USD60bn worth of US goods.

Credit Headlines:

Ascendas Real Estate Investment Trust (“AREIT”) | Issuer Profile: Neutral (3)

- AREIT announced the proposed acquisition of Cargo Business Park, a logistics property located at 56 Lavarack Avenue, Brisbane for AUD33.5mn (~SGD33.9mn). Including transaction cost, AREIT is expected to pay AUD36.1mn (~SGD36.5mn).
- Cargo Business Park is located near Brisbane Airport and the Central Business District of Brisbane. The property is 87.4% occupied and the seller will provide a 12 month rental guarantee for vacant spaces. This transaction in itself is credit neutral in our view given the small scale though we expect AREIT’s aggregate leverage to increase to ~38% following its [proposed acquisition of 12 properties in the UK](#). (Company, OCBC)

Keppel Corporation Limited (“KEP”) | Issuer Profile: Neutral (3)

- KEP announced that its indirect wholly-owned subsidiary, namely Chengdu Hillstreet Development Co., Ltd (held via Keppel Land China Limited) has entered into a conditional sale and purchase agreement with Sichuan Shengdai Food Co., Ltd (“Vendor”, “Shengdai”) to acquire Shengdai’s interest in a 3.35 ha plot of land in Chengdu, China. Shengdai will incorporate a new company and it will inject the land into this new company. The total consideration for the acquisition is ~RMB373mn (about SGD74.6mn) payable in cash with targeted completion in 3Q2018. This transaction in itself is credit neutral in our view given the small scale.
- In separate news, KEP’s asset management arm, Keppel Capital Holdings Pte. Ltd (“Keppel Capital”), via a 100% owned subsidiary has entered into a memorandum of understanding (“MOU”) with Vicinity Centres (“Vicinity”), an Australian retail property REIT listed on the Australian Securities Exchange to establish a new private fund. Assets owned and managed by Vicinity includes Chadstone (Melbourne), The Glen (Melbourne), The Strand Arcade (Sydney) and various DFOs.
- The proposed fund intends to invest in an initial AUD1.0bn (~SGD1.0bn) of Australian retail properties currently owned by Vicinity. The proposed fund is intended to be managed by a joint venture that will be owned by Keppel Capital and Vicinity on a 50:50 basis and each party is expected to initially hold up to a 10% equity interest in the proposed fund.
- This proposed fund, if successful, will be Keppel Capital’s first retail-focused real estate fund and follows KEP’s recent involvement in [new real estate asset classes](#). (Company, OCBC)

Credit Headlines (cont'd):

Chip Eng Seng Corp Ltd (“CES”) | Issuer Profile: Negative (6)

- CES reported 2Q2018 results. Revenue increased 16.3% y/y to SGD247.8mn, largely driven by robust contribution from property developments (+33.0% y/y to SGD188.6mn) and hospitality divisions (+114.7% y/y to SGD15.3mn), partially offset by the construction division (-31.4% y/y to SGD42.1mn). Consistent with previous quarter, property developments was higher due to progressive recognition of High Park Residences, Grandeur Park Residences and Williamsons Estate. Hospitality continued to do well due to contribution from island resorts in Maldives, Grand Park Kodhipparu Resort. Overall topline was also boosted by two newly acquired hotels in Australia in 2H2017, The Sebel Mandurah and Mercure & Ibis Styles Grosvenor Hotel. Construction, on the other hand, continued to underperform due to lower revenue recognised from Bidadari projects, Tampines N6C1A/1B and Woodlands N1C26 & N1C27. As a result of higher revenue, net profit jumped to SGD16.2mn (2Q2017: SGD2.5mn).
- Net gearing surged q/q to 1.96x (1Q2018: 1.57x), mainly due to the completion of the purchase of Changi Garden (acquisition price: SGD248.8mn) and additional secured borrowings obtained for Park Colonial and working capital. Meanwhile, liquidity is sufficient with cash (SGD320.7mn) exceeding short term borrowings (SGD8.7mn). Going forward, sales execution of the major projects will be crucial to alleviate the increasing pressure on credit metrics.
- Thus far, despite the property cooling measures, Park Colonial has sold 52.6% of the units since launch (increasing from a month ago which saw ~38.5% of the units sold on the day before the cooling measures came into effect). We will continue to monitor this and watch the sales of the 320-unit redevelopment of Changi Garden, which is scheduled to launch in 1H2019 as well as 703-units Fifteen85 (a South Melbourne project), which launched at end-2Q2018. (Company, OCBC)

OUE Limited (“OUE”) | Issuer Profile: Neutral (4)

- OUE reported its 2Q2018 results. Revenue declined 20% y/y to SGD150.7mn, mainly due to the absence of development property income in 2Q2018 (2Q2017: SGD55.2mn). This was insufficiently offset by the recognition of SGD12.6mn in dividend income received from 14.8%-owned Gemdale Properties (“Gemdale”). Gemdale has been de-recognised as a joint venture since May 2018. Investment properties income increased 4.2% to SGD69.8mn from full quarter contribution of Downtown Gallery (opened in May 2017) while Hospitality Income increased 11.1% from full quarter contribution from Oakwood Premier OUE (serviced apartment, opened in June 2017).
- Healthcare division saw a 15.3% decline in revenue to only SGD9.5mn due to lower revenue in China.
- EBITDA (based on our calculation which does not include other income and other expenses) was SGD48.7mn (2Q2017: SGD38.5mn) though interest expense had increased 13% due to higher levels of average borrowing and a higher net foreign exchange loss. This resulted in still higher EBITDA/Interest of 1.3x against 1.2x in 2Q2017.
- As at 30 June 2018, net gearing at OUE increased slightly to 0.7x from 0.6x as at 31 March 2018 and at the beginning of the financial year. Short term debt was SGD1.3bn, though of the borrowings, SGD0.5bn relates to OUE’s Commercial REIT (“OUE C-REIT”) coming due in 2H2018 and is in the midst of being refinanced. SGD0.2bn will mature in 4Q2018 while the remaining is due only in 1Q2019. Secured debt at OUE amounted to SGD2.2bn, representing 29% of assets which in our view can be used as collateral (aggregate of cash, investments in equity, development properties and investment properties). In our view, OUE should be able to refinance its short term debt given the sufficient asset coverage. We maintain OUE’s issuer profile at Neutral (4). (Company, OCBC)

Table 1: Key Financial Indicators

	6-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	82	5	-13
iTraxx SovX APAC	11	-1	-4
iTraxx Japan	56	-1	-9
iTraxx Australia	76	3	-9
CDX NA IG	59	1	-7
CDX NA HY	107	0	1
iTraxx Eur Main	64	3	-7
iTraxx Eur XO	294	12	-17
iTraxx Eur Snr Fin	79	4	-6
iTraxx Sovx WE	26	1	1
AUD/USD	0.740	-0.16%	-0.47%
EUR/USD	1.156	-1.24%	-1.58%
USD/SGD	1.367	-0.44%	-0.66%
China 5Y CDS	62	6	-8
Malaysia 5Y CDS	86	4	-20
Indonesia 5Y CDS	116	9	-17
Thailand 5Y CDS	44	2	-5

	6-Aug	1W chg	1M chg
Brent Crude Spot (\$/bbl)	73.18	-2.39%	-5.10%
Gold Spot (\$/oz)	1,214.48	-0.57%	-3.27%
CRB	193.23	-0.48%	-2.43%
GSCI	462.15	-0.54%	-3.87%
VIX	11.64	-10.67%	-12.94%
CT10 (bp)	2.954%	-1.85	13.26
USD Swap Spread 10Y (bp)	8	1	-1
USD Swap Spread 30Y (bp)	-4	1	0
TED Spread (bp)	34	-2	-3
US Libor-OIS Spread (bp)	32	-2	-7
Euro Libor-OIS Spread (bp)	4	1	0
DJIA	25,463	0.05%	4.11%
SPX	2,840	0.76%	2.92%
MSCI Asiax	662	-2.10%	0.14%
HSI	27,676	-3.92%	-2.26%
STI	3,266	-1.78%	2.32%
KLCI	1,780	0.62%	6.99%
JCI	6,008	0.31%	5.49%

New issues

- There were no new issuances over 3 Aug 2018.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
2-Aug-18	Power Finance Corp Ltd	USD300mn	10-year	CT10+235bps
2-Aug-18	Sands China Ltd	USD1.8bn	5-year	CT5+175bps
2-Aug-18	Sands China Ltd	USD1.8bn	7-year	CT7+220bps
2-Aug-18	Sands China Ltd	USD1.9bn	10-year	CT10+245bps
2-Aug-18	Wuhan Real Estate Development Investment Group Co Ltd	USD430mn	3-year	5.7%
2-Aug-18	Bank of China Ltd/Macau	USD300mn	3-year	3mL+75bps
31-Jul-18	Lotte Property & Development Co Ltd	USD200mn	3-year	3mL+92.5bps
31-Jul-18	KWG Group Holdings Limited	USD350mn	3NC2	7.875%
31-Jul-18	China Mengniu Dairy Co Ltd	USD500mn	5-year	CT5+148bps
30-Jul-18	CMHI Finance BVI Co Ltd	USD900mn	5-year	CT5+162.5bps
30-Jul-18	CMHI Finance BVI Co Ltd	USD600mn	10-year	CT10+215bps
30-Jul-18	Woori Bank	USD300mn	10-year	CT10+220bps
27-Jul-18	Legend Fortune Ltd	USD300mn	3-year	3mL+128bps
26-Jul-18	Trade Horizon Global Ltd (JUDA)	USD400mn	3-year	3mL+257.5bps
26-Jul-18	China Aoyuan Property Group Ltd (re-tap)	USD175mn	CAPG 6.35%'20s	98.516
26-Jul-18	Industrial Bank of Korea	USD500mn	3-year	3mL+60bps

Source: OCBC, Bloomberg

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